

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED
JAN 26 4 50 PM '98
POSTAL RATE COMMISSION
OFFICE OF THE CLERK

POSTAL RATE AND FEE CHANGES, 1997)

Docket No. R97-1

RESPONSE OF THE DIRECT MARKETING ASSOCIATION, INC. WITNESS BUC
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
(USPS/DMA-T1-1-5)

The Direct Marketing Association, Inc. hereby provides responses of
witness Buc to the following interrogatories of the United States Postal Service
(USPS/DMA-T1-1-5), filed January 12, 1998.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



Dana T. Ackerly
David L. Meyer
Michael D. Bergman
COVINGTON & BURLING
1201 Pennsylvania Ave., N.W.
P.O. Box 7566
Washington, D.C. 20044
(202) 662-5296

Counsel for Direct Marketing
Association, Inc.

January 26, 1998

USPS/DMA-T1-1. Please refer to Library Reference H-10, Exhibits A, B, and C. Please confirm that the detailed personnel cost reduction and other program dollar amounts for supervisors, clerks, mail handlers, and city carriers listed by program equal the amounts reflected in the rollforward model runs used in this Docket for cost segments two, three, and six and seven. If you do not confirm please list any differences and the amounts.

USPS/DMA-T1-1 Response:

The totals for Library Reference H-10, Exhibit A, Summary of FY 1997 Other Program Changes from Prior Year, match the totals shown in Witness Tayman's Table 11, Other Programs for FY 1997. Similarly, the totals for Library Reference H-10, Exhibit B, Summary of FY 1998 Other Program Changes from Prior Year, also match the totals shown in Witness Tayman's Table 11 for FY 1998. With the exception of a difference in sign, the totals for Library Reference H-10, Exhibit C match the total for Witness Tayman's Table 10, Cost Reductions.

USPS/DMA-T1-2. On page 4 lines 24-27 of your testimony you state "the rollforward program incorporates a number of upward adjustments in mail volume, non-volume workload and other programs that increase the costs of supervisors when clerks' and mailhandlers' and carriers' costs increase. However, the cost reduction portion of the rollforward program does not contain a corresponding downward adjustment in supervisors' costs to reflect savings in direct labor when costs for clerks, mailhandlers and carriers decrease."

- (a) Please confirm that a majority of the other programs listed on Exhibits A and B of LR H-10 which reflect increases in clerk, mailhandler, and city carrier costs do not reflect increases in supervisor costs. If you do not confirm please explain fully.
- (b) In your opinion should all other programs which result in cost increases to clerks, mailhandlers, or city carriers result in corresponding cost increases in supervisors? If your answer is no, please explain which ones should result in increases and which ones should not and why. Include in any negative answer an explanation of how these other programs differ conceptually from the cost reductions which you have argued should have corresponding decreases in supervisors.

USPS/DMA-T1-2 Response:

(a) While a majority of the other programs listed on Exhibits A and B of LR-H-10, which reflect increases in clerk, mailhandler, and city carrier costs do not reflect increases in supervisor costs, some do. Significantly, in both Exhibit A and Exhibit B, supervisors' costs increased approximately 10 percent of the increase of the components supervised.

(b) Not all programs which have increases in clerks, mailhandlers, or city carriers will necessarily have corresponding increases in supervisors. I would find it curious if none of the programs with increases in clerks, mailhandlers, or city

carriers had corresponding increases in supervisors. However, the point is that, unlike programs where there was a cost increase to clerks, mailhandlers or city carriers, for FY 1997 and FY 1998 program managers never adjusted supervisors' costs downward when savings for the component supervised were realized from cost reduction programs. (See LR-H-12 at 93-96; Tr. 13/7221). Because managers apparently never considered adjustments in supervisors' costs, it is only reasonable to decrease supervisors' costs proportional to the decrease in the related craft workers' costs.

USPS/DMA-T1-3. Please refer to page 5, line 13 of your testimony where you state that "it appears that program managers simply did not realize that they were supposed to adjust supervisors' and technicians' costs downward as they did for the costs for mail processing clerks and mailhandlers and city carriers due to the cost reduction programs." Also refer to the responses of witness Patelunas to DMA/USPS-T15-1b. and DMA/USPS-T15-5e.i).

- (a) Please confirm that the responses to the two interrogatories cited above explain that program managers used "their own understanding of the relationships between craft employees and supervisors when they determined these cost reduction estimates" and that "it would not be realistic to conclude from your arithmetic that program managers did not analyze the effect on supervisor and technician workyears". If you do not confirm please explain fully.
- (b) Please explain how you determined that program managers "simply did not realize that they were supposed to adjust supervisors' and technicians' costs downward as they did for the costs for mail processing clerks and mailhandlers and city carriers due to the cost reduction programs". Include in your answer how you interpreted the two interrogatory responses cited above in making your determination.
- (c) Isn't it possible that program managers considered the viability of supervisor savings related to cost reduction programs and determined that they were not viable? If your answer is other than an unqualified yes, please explain the basis for your conclusion.

USPS/DMA-T1-3 Response:

- (a) Witness Patelunas's responses speak for themselves.
- (b) There are two reasons for my referenced statement. First, witness Patelunas responded that the program managers who estimated savings from personnel-related cost reduction programs for Clerks and Mailhandlers and for City Carriers were not instructed to determine whether these savings would

reduce the number of supervisors' hours. (Tr. 13/7211). Second, although Exhibit C of Library Reference H-10 lists 30 cost reduction program changes and their accompanying cost and workload savings for clerks, 12 for mailhandlers, and 10 for carriers, none of these changes resulted in corresponding savings for supervisors.

With regard to witness Patelunas's response to DMA/USPS-T15-1.b, I think that program managers primarily consider direct craft labor costs because direct labor costs are ten times higher than supervisors' costs. I doubt that program managers spend much time contemplating the relationship between craft employees and supervisors. For this reason and based upon my second point above, I think program managers ignored this relationship when estimating cost savings. With regard to witness Patelunas' response to DMA/USPS-T15-5e.i., the fact that no program manager estimated supervisor cost savings when the costs for the component supervised decreased suggests that witness Patelunas is incorrect.

(c) Although it is possible that program managers did consider the viability of cost savings even though they weren't instructed to do so, it appears much more likely that they simply didn't consider the issue.

USPS/DMA-T1-4. Please refer to page 3 of LR H-10 which explains how the cost reduction and other program cost impacts used in this Docket were estimated and evaluated.

- (a) Confirm that the last paragraph on the page states that "major program plans and assumptions are subjected to an intensive review and validation by our investment review and approval process. During the formulation phase of the budget process, an additional reality check is performed on all major program assumptions. This step utilizes a team of field operational and financial managers to review the program savings/cost targets and resolve issues with the program managers or sponsors. These steps ensure planning assumptions used in formulating program expectations are reasonable and accurately portray the impact a program will have on the Postal Service's financial position." If you do not confirm please explain your answer fully.
- (b) Please confirm that the process described above indicates that cost reduction and other programs receive more than more than [sic] cost reduction and other programs receive more than one level of review. If you do not confirm please explain your answer fully.
- (c) Confirm that a process with multiple levels of review would tend to lessen the likelihood that supervisor savings related to cost reduction programs would be overlooked as opposed to consciously determined not to result from the cost reduction programs reflected in the revenue requirement and the rollforward model runs used in this Docket. If you do not confirm please explain your answer fully.

USPS/DMA-T1-3 Response:

- (a) Confirmed.
- (b) Confirmed, if the process described in subpart (a) actually takes place
- (c) Not confirmed. In my experience in both the public and private sectors I have found that budget reviews most often focus on changes from the status quo.

In other words, reviewers generally focus on changes from the past more than they focus on cost estimates for programs unchanged from past practices.

Because program managers did not change supervisors' costs, I think that the implicit assumption that supervisors' costs do not change when costs for the components supervised change most likely went unnoticed in the budget review.

In addition, such costs may have been overlooked because supervisors' costs are a small percentage of the costs of the components supervised. Alternatively, if supervisors' costs were considered at all, given the Postal Service's interest in restoring equity and given their position as a regulated cost of service monopolist, I believe that their incentives to overestimate their revenue needs are stronger than their incentives to underestimate them.

USPS/DMA-T1-5. Assume that supervisor cost savings related to cost reduction programs were evaluated and consciously determined by Postal Service program managers and program reviewers not to be viable for the development of budgets and the revenue requirement for this Docket.

- (a) Under such a scenario, should supervisor cost reduction savings not recognized by Postal management as viable for budget and revenue requirement purposes be artificially reflected in the revenue requirement using the mechanical calculation method you have proposed? Please explain your answer fully.
- (b) In your opinion, will the additional supervisor savings you are recommending for inclusion in the revenue requirement be achieved (captured) if they are not reflected in Postal Service Budgets? Please explain your answer fully?

USPS/DMA-T1-5 Response:

- (a) Postal Service revenue requirements should reflect the Postal Service's best estimates. If the Postal Service does not believe cost savings or increases will materialize, they should not estimate that they will.
- (b) Regulated cost-of-service monopolists without shareholders (like the Postal Service) are not widely known for being efficient producers. Thus, even cost savings that are estimated in budgets are sometimes hard to capture. I believe it is less likely that savings will accrue that are not estimated in the budget. Savings that are not estimated in either revenue requirements or budgets are even less likely to accrue.

DECLARATION

I, Lawrence G. Buc, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Lawrence G. Buc

Dated: January 26, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice, as modified by the Special Rules of Practice.


Michael D. Bergman

January 26, 1998

Washington, D.C.

DECLARATION

I, Lawrence G. Buc, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Lawrence G. Buc

Dated: January 26, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice, as modified by the Special Rules of Practice.


Michael D. Bergman

January 26, 1998

Washington, D.C.